

Lessons from the East

Alvaro Ortiz

[Diario El País \(Spain\)](#)

While part of the western world strives to find defensive strategies with which to combat low economic growth, China goes onto the attack and speeds up its economic projection and external geopolitics by means of the Silk Road project. What was first seen as an exotic Asian regional project has ended up captivating a large number of European and other powers. After all, being connected in one way or another to the geographic region that will generate nearly three quarters of world growth can't be bad.

The initiative consists of a mega-infrastructure project aimed at reviving the ancient connection between East and West. This will be done by improving several land-based routes and a maritime one. It involves 63 countries, from China to Europe, and by some estimates, such as those of Bruegel, it will require nearly US\$5 trillion* (of which only about US\$0.9 trillion has been projected). Exchanges of goods, financial flows, people, technologies, cultures and ideas will take place on a much greater scale.

For China, the project has many advantages. In the first place, it improves transport and communications with new trading partners, from its immediate neighbours, through the countries of Central Asia, Russia and the Middle East, to Turkey and Eastern Europe. The maritime route will improve its trading potential with the Middle East. The excess capacity of certain Chinese state-owned enterprises, the advances in its productive structure (more in consonance with its degree of development) and the reduction of transport costs all point to China as being one of the main beneficiaries.

The advantages will extend to the economy. The massive financing requirements cannot be met entirely, either by the countries involved or by the newly established Asian Infrastructure Investment Bank (AIIB). The gap will be filled by China's banks, in public-private initiative projects, which will reduce the surplus domestic savings dedicated to domestic loans. Geopolitically, China projects itself inland, without neglecting its maritime presence, while at the same time significantly increasing its intangible international projection or soft power.

Europeans will benefit too. The commercial benefits deriving from the reduction in transport costs will be significant and by greater since so far there has been no talk of bilateral trade agreements that would favour Asian countries with lower import duties. Improvements in investment flows may be substantial as Spanish and other European firms increase their share in the civil engineering and financial projects. Last but by no means least, the project may boost significant flows of people, emerging middle classes, enterprises or ideas. Without a doubt, quite a project coming out of the East.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.